



CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 18, 2007

H.R. 4137
Higher Education Amendments of 2007

*As ordered reported by the House Committee on Education and Labor
on November 15, 2007*

SUMMARY

H.R. 4137 would reauthorize and amend most postsecondary education programs under the Higher Education Act of 1965 through 2013. Under the General Education Provisions Act, those authorizations would automatically be extended through 2014. The bill also would create several new student and institutional aid programs and amend several other acts.

CBO estimates that enacting the bill would increase direct spending by \$75 million in 2008 and decrease direct spending by \$27 million over the 2008-2017 period. For discretionary programs, CBO estimates that implementing H.R. 4137 would cost \$97.4 billion over the 2008-2012 period, assuming appropriation of the necessary amounts.

H.R. 4137 contains several intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the aggregate costs to state, local, and tribal governments and private entities to comply with those mandates would not exceed the thresholds established in UMRA (\$66 million in 2007 and \$131 million in 2007, respectively, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4137 is shown in Table 1. The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 4137

	By Fiscal Year, in Millions of Dollars					
	2008	2009	2010	2011	2012	2008-2012
CHANGES IN DIRECT SPENDING ^a						
Estimated Budget Authority	-3	-3	-3	-3	-3	-15
Estimated Outlays	75	-3	-53	-28	-3	-12
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	504	29,597	30,469	31,342	31,858	123,767
Estimated Outlays	5	7,165	28,278	30,381	31,609	97,435

Note: Components may not sum to totals because of rounding.

- a. In addition, H.R. 4137 would reduce direct spending by \$3 million per year over the 2013-2017 period and by a total of \$27 million over the 2008-2017 period. H.R. 4137 also would affect revenues by a negligible amount in every year and over the 2008-2017 period.
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BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that H.R. 4137 will be enacted in fiscal year 2008 and that sufficient funds will be appropriated for each program. For current programs that would remain unchanged, CBO assumes continued funding at their 2007 levels adjusted for inflation. The estimate does not address the changes to the student loan programs and to the Pell Grant Program included in the College Cost Reduction and Access Act (CCRAA, Public Law 110-84), which was signed into law on September 27, 2007.

Direct Spending and Revenues

CBO estimates that enacting H.R. 4137 would increase direct spending by \$75 million in 2008 and decrease it by \$27 million over the 2008-2017 period. Most of those effects stem from changes affecting eligibility for federal student loan programs and the Academic Competitiveness and SMART Grant programs.

Federal Student Loan Programs. H.R. 4137 would make several changes to the calculations of needs analysis and the rules governing the eligibility of students and institutions for the federal student loan programs.

Under current law, the “cohort default rate” is defined as the percentage of a school's borrowers who enter repayment during one fiscal year and then default prior to the end of the next fiscal year. H.R. 4137 would change the definition of the cohort default rate by also counting defaults for an additional fiscal year, which would raise cohort default rates for many institutions. Because schools with a cohort default rate over a specified level are ineligible to participate in Title IV student aid programs, CBO projects that the change to the definition of the cohort default rate would reduce the number of schools eligible to participate in the student loan programs. Accordingly, CBO estimates this reduction in loan volume would reduce direct spending by \$12 million over the 2008-2012 period and by \$27 million over the 2008-2017 period.

Academic Competitiveness and SMART Grant Programs. For both the Academic Competitiveness Grant and SMART Grant Programs, the bill would adjust how a student's academic year is determined and expand eligibility to part-time students. Currently, only full-time students are eligible for grants. Appropriations for those programs are capped at specified amounts and the Secretary of Education has the authority to reduce award levels to stay within the appropriation. CBO estimates those changes would increase outlays by \$75 million in fiscal year 2008 and would reduce outlays by the same amount in future years.

Private Student Loan Transparency and Improvement. Title X would require the Board of Governors of the Federal Reserve and other financial regulatory agencies to issue regulations and supervise compliance with the new lending standards and procedures in the bill. Based on information from the Federal Reserve and other agencies, those regulatory activities would have no significant effect on their workload or budgets. The budgetary effects on the Federal Reserve are recorded as changes in revenues (governmental receipts). Costs incurred by the other financial regulatory agencies affect direct spending, but most of those expenses are offset by fees or income from insurance premiums. Thus, CBO estimates that enacting this bill would reduce revenues by less than \$500,000 in every year and over the 2008-2017 period, and would have a negligible net effect on direct spending.

The National Center for Learning Science and Technology Trust Fund. The bill also would create the National Center for Learning Science and Technology to support basic and applied research. While federal funding for the program would be subject to appropriations (see the discussion below under the heading "Spending Subject to Appropriation"), the bill would establish a trust fund that could accept gifts from nonfederal sources and spend any proceeds. CBO estimates that this trust fund would have a negligible affect on revenues and direct spending.

Spending Subject to Appropriation

The bill would reauthorize and amend many of the discretionary programs previously authorized by the Higher Education Act of 1965 and would authorize a number of new discretionary programs. In total, CBO estimates that implementing this legislation would

increase discretionary outlays by \$97.4 billion over the 2008-2012 period, assuming the appropriation of the necessary amounts, as shown in Table 2.

Title I. The title would reauthorize funding for a grant program designed to prevent alcohol and drug abuse and would require the Department of Education to perform several studies and prepare reports. CBO estimates that funding those activities would increase outlays by \$16 million over the 2008-2012 period.

Title II. CBO estimates that reauthorizing funding for programs in title II would result in outlays of \$1.8 billion over the 2008-2012 period, assuming appropriation of the necessary amounts.

Title II would authorize the appropriation of \$400 million for fiscal year 2009 and such sums as may be necessary for 2010 and 2011 for two programs that provide grants to aid in the recruitment and professional development of teachers. CBO estimates that discretionary costs for those programs would increase by \$1.1 billion over the 2008-2012 period, assuming annual adjustments for inflation.

In addition, title II would authorize the appropriation of such sums as may be necessary for 2009 and each of the next four years to carry out a new program under which grants would be provided to enhance teacher education. Based on data for similar comparative grant awards, CBO estimates that about 600 eligible entities would receive grants under this program in 2009. Accordingly, CBO estimates that implementing the Enhancing Teacher Education program would increase discretionary costs by \$760 million over the 2008-2012 period.

Title III. This title would reauthorize and amend programs that provide aid to institutions and would create several new programs for the same purpose. Those programs are designed to give financial assistance to institutions of higher education that serve a high percentage of minority and low-income students and to help those institutions develop and improve the quality of education they offer such students. H.R. 4137 would authorize the appropriation of \$767 million in 2009 and such sums as may be necessary for 2010 through 2013 for those programs. Based on historical spending patterns and adjusting for inflation, CBO estimates that implementing title III would result in increased outlays of \$2.1 billion over the 2008-2012 period, assuming the appropriation of the estimated amounts.

TABLE 2. CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 4137

	By Fiscal Year, in Millions of Dollars					
	2008	2009	2010	2011	2012	2008-2012
Title I						
Estimated Authorization Level	0	7	5	5	5	23
Estimated Outlays	0	0	5	5	5	16
Title II						
Estimated Authorization Level	0	681	688	701	291	2,362
Estimated Outlays	0	34	498	626	676	1,834
Title III						
Estimated Authorization Level	0	767	781	795	810	3,153
Estimated Outlays	0	38	561	709	791	2,099
Title IV						
Estimated Authorization Level	-76	26,464	27,288	28,104	28,982	110,763
Estimated Outlays	-17	6,791	25,872	27,451	28,416	88,513
Title V						
Estimated Authorization Level	0	300	305	311	317	1,233
Estimated Outlays	0	15	219	277	309	821
Title VI						
Estimated Authorization Level	0	120	122	124	127	493
Estimated Outlays	0	6	88	111	124	328
Title VII						
Estimated Authorization Level	0	355	361	368	375	1,459
Estimated Outlays	0	18	259	328	366	971
Title VIII						
Estimated Authorization Level	2	263	266	271	276	1,079
Estimated Outlays	0	15	192	242	270	719
Title IX						
Estimated Authorization Level	576	639	650	662	675	3,186
Estimated Outlays	21	246	584	632	651	2,134
Title X						
Estimated Authorization Level	2	0	0	0	0	0
Estimated Outlays	1	1	0	0	0	0
Total						
Estimated Authorization Level	504	29,597	30,469	31,342	31,858	123,767
Estimated Outlays	5	7,165	28,278	30,381	31,609	97,435

Note: Components may not sum to totals because of rounding.

Title IV. CBO estimates that implementing title IV would increase discretionary costs by \$88.5 billion over the 2008-2012 period for student assistance programs.

Pell Grant Program. Title IV would make changes to the Pell Grant Program, which provides grants to low-income undergraduate students. The CCRAA extended the underlying authorization for Pell grants through fiscal year 2017 but did not establish a maximum award level for any year. (The maximum award level of \$4,310 was set most recently in the appropriation for 2007.) H.R. 4137 would raise the maximum award level from \$4,310 to \$9,000 for academic years 2009-2010 through 2013-2014. CBO estimates those changes would increase discretionary costs for Pell grants by \$67.7 billion over the 2009-2012 period.

The title also would allow students who are enrolled year-round at two-year or four-year institutions to receive more than one Pell grant for that year and would prohibit grants to individuals that meet specific criteria. As discussed above under the heading "Direct Spending," the bill would alter the needs analysis for students and definitions and rules relating to institutional eligibility for financial aid. CBO estimates that those changes would increase discretionary costs in the Pell Grant Program by approximately \$200 million over the 2008-2012 period.

Perkins Loan Program. The title would require the department to cancel an increased number of loans for students who meet specific criteria defined in the bill and who had received Perkins loans while enrolled in a institution of higher education. The bill also would authorize the Secretary to make increased contributions to student loan revolving funds held by colleges and universities for fiscal year 2009 and for each of the next five years, which would increase the amount of funds that could be loaned out. When those loans are cancelled, current law requires the department to reimburse the schools that make those loans for the cost of the loan cancellation. (These costs are treated as discretionary costs in the budget.) CBO estimates that this provision would increase discretionary costs by \$735 million over the 2009-2012 period.

Loan Forgiveness. Title IV would create a new program to forgive loans to borrowers that work in a variety of public-sector jobs. For each year of full-time employment in those jobs, a borrower could have up to \$2,000 forgiven, up to a lifetime maximum of \$10,000. The bill would authorize the appropriation of such sums as may be necessary for each of fiscal years 2009 through 2013 for such loan forgiveness. CBO estimates that this provision would increase discretionary costs by \$7.8 billion over the 2008-2012 period.

Other Programs. Title IV would authorize the appropriation of about \$4 billion for fiscal year 2009 and such sums as may be necessary for fiscal years 2010 through 2013 for many student assistance programs. This title would further authorize the appropriation of such sums as may be necessary for 2009 through 2013 for all other student assistance programs under title IV. Based on historical spending patterns, CBO estimates that implementing those programs would increase discretionary costs by \$12.8 billion over the 2009-2012 period.

Title V. The bill would authorize the appropriation of \$300 million in 2009 and such sums as may be necessary for each of the next four years to operate programs that provide grants to institutions to help expand and improve educational opportunities for Hispanic Americans. Assuming appropriation of the estimated amounts, CBO estimates that implementing those programs would cost \$821 million over the 2008-2012 period if adjusted annually for inflation.

Title VI. The bill would authorize the appropriation of \$108 million in 2009 and such sums as may be necessary for each of the next four years to operate existing programs related to international education and foreign language studies. Additionally, the bill would authorize the appropriation of such sums as may be necessary in 2009 and for each of the next four years to implement new programs detailed in the title. Based on similar programs and current spending patterns, CBO estimates that implementing title VI would cost \$328 million over the 2008-2012 period, assuming the appropriation of the estimated amounts.

Title VII. In total, CBO estimates that providing assistance under title VII would cost \$971 million over the 2008-2012 period, assuming appropriation of the estimated amounts.

Title VII would authorize the appropriation of \$180 million in 2009 and such sums as may be necessary for each of the next four years to support a variety of graduate and postsecondary improvement programs. CBO estimates that implementing those programs would increase discretionary costs by \$312 million over the 2009-2012 period.

Additionally, H.R. 4137 would establish the Patsy T. Mink Fellowship Program and would authorize the annual appropriation of such sums as may be necessary for 2009 through 2013. Under this program, institutions that receive grants would have to make at least 15 fellowship awards consisting of a stipend equal to the level of support provided to the graduate fellows at the National Science Foundation (NSF). Based on the number of institutions that grant advanced degrees in the United States and information from the NSF, CBO estimates that implementing this program would increase discretionary costs by \$358 million over the 2008-2012 period.

Title VIII. H.R. 4137 would add title VIII to the Higher Education Act of 1965 and would authorize the department to establish several new programs to support institutions of higher education. Overall, CBO estimates that it would cost \$719 million over the 2008-2012 period to carry out title VIII, assuming appropriation of the estimated amounts. Major provisions of the title would:

- Authorize grants to improve remedial education. Based on data from the National Center for Education Statistics concerning the level of participation in remedial education opportunities at institutions of higher education, CBO estimates implementing this would increase discretionary costs by \$140 million over the 2008-2012 period.

- Authorize the appropriation of \$40 million for 2009 and such sums as may be necessary for each of the next four years to give grants to institutions to establish degrees that focus on computer modeling and simulation. Based on historical spending patterns, CBO estimates that implementing that program would increase discretionary costs by \$109 million over the 2008-2012 period.
- Create a competitive grant program designed to expand opportunities for worksite learning at institutions of higher education. Based on information from industry groups, CBO estimates that about 100 partnerships might receive an average grant of \$300,000 in 2009. CBO estimates that providing grants to these partnerships would increase discretionary costs by \$82 million over the 2008-2012 period.
- Create a competitive grant program to help institutions develop emergency communications systems. Based on information from the Department of Education about similar programs, CBO estimates that operating this grant program would increase discretionary costs by \$68 million over the 2008-2012 period.

Title IX. CBO estimates that implementing title IX would result in outlays of about \$2.1 billion over the 2008-2012 period, assuming the appropriation of the estimated amounts.

Specifically the bill would:

- Create a program to assist eligible institutions in acquiring digital and wireless networking technologies. The bill would authorize the appropriation of \$250 million in 2008 and such sums as may be necessary to run the program in each year 2009 through 2012. CBO estimates that implementing this program would increase discretionary costs by \$946 million over the 2008-2012 period, assuming annual adjustments for inflation.
- Amend laws related to providing postsecondary education to Native Americans. The bill would allow biological children of enrolled tribe members to be officially counted as Native Americans, raise the authorized grant level per individual from \$6,000 to \$8,000 in 2008, and would adjust those levels for inflation. Accounting for those and other changes, CBO estimates that implementing those amendments would increase discretionary costs by \$434 million over the 2008-2012 period.
- Reauthorize support for Gallaudet University and the Laurent Clerc National Deaf Education Center. Based on the amount provided to Gallaudet University in 2007 (\$107 million) and assuming annual adjustments for inflation, CBO estimates that providing this support would increase discretionary costs by \$341 million over the 2008-2012 period.

- Reauthorize programs run by the National Technical Institute for the Deaf. Based on the amount provided to the institute in 2007 (\$57 million) and assuming annual adjustments for inflation, CBO estimates that this provision would increase discretionary costs by \$178 million over the 2008-2012 period.
- Expand a program under which grants are provided to states for the training of incarcerated individuals. The bill would authorize the appropriation of such sums as may be necessary for fiscal years 2008 through 2013 for this program. Based on data from the Bureau of Justice Statistics, CBO estimates that the change in the age limitation for this program would increase the number of people eligible for services under this program by about 80 percent. CBO estimates that implementing this program would increase discretionary costs by \$120 million over the 2008-2012 period.
- Create a new program that would allow the Department of Justice to forgive student loans for individuals employed as prosecutors and public defenders. The bill would authorize the appropriation of \$25 million for each of the fiscal years 2008 through 2013 for such loan forgiveness. Based on historical spending patterns, CBO estimates that this loan repayment program would cost \$83 million over the 2008-2012 period, assuming the appropriation of the authorized amounts.

Title X. This title would direct the Treasury Department and the Government Accountability Office to prepare reports on issues related to private-sector financing of post-secondary education. Based on information from the affected agencies, CBO estimates that preparing these reports would cost approximately \$2 million over the 2008-2009 period, assuming the availability of appropriated funds.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4137 contains several intergovernmental and private-sector mandates as defined in UMRA. CBO estimates that the aggregate costs to state, local, and tribal governments and private entities to comply with those mandates would not exceed the thresholds established in UMRA (\$66 million in 2007 and \$131 million in 2007, respectively, adjusted annually for inflation).

CBO estimates that several of the mandates would impose modest costs on public and private entities. Specifically, the bill would:

- Require institutions of higher education that increase tuition by more than the average across all institutions to create a quality-efficiency task force to review the operations of the institution and to report on the factors that lead to the increase. Although as many as 1,500 institutions may be required to produce such reports, CBO expects the cost to produce such reports to be modest.

- Require institutions of higher education to provide textbook information as part of their class schedules. Most schools currently post those schedules online and have mechanisms for collecting course information from professors. This mandate would require small modifications to those systems.
- Prohibit public and private colleges and universities from receiving gifts from private lenders in exchange for any advantage or consideration provided to those lenders. Those schools also would be prohibited from engaging in revenue-sharing agreements and co-branding with private lenders. CBO estimates the direct cost to comply with that mandate would be small because the prohibited practices are rare.
- Increase disclosure requirements for public and private lenders who make educational loans not backed by the federal government. The bill would require lenders to give applicants a certain period of time to accept a loan after approval and to change their minds after accepting. The direct cost of initially complying with these mandates would include the cost to a small number of lenders of developing and reviewing new disclosure information for advertising and modifying existing disclosure forms. According to industry sources, the major ongoing cost would be the cost of fielding questions about the new and somewhat different disclosure forms.
- Require publishers of college textbooks, including public university presses, to provide certain information to those individuals that make decisions on which texts are used in classes. This information is readily available to publishers and CBO estimates the cost of disseminating it would be modest.
- Require those publishers to make supplemental materials normally sold with textbooks available for purchase separately. According to industry sources, the components of textbooks packaged with other materials are generally available for separate purchase. Furthermore, the added packaging and administrative costs would be modest.

The bill contains several additional intergovernmental and private-sector mandates. CBO expects, however, that these requirements would not impose significant costs on public or private entities. Specifically, the bill would:

- Require institutions of higher education that have students who obtain private educational loans to develop and publish a code of conduct that prohibits a conflict of interest with respect to educational loans.
- Require institutions that have lost recognition by the Secretary of Education as a legitimate institution for immigration and federal employment hiring purposes to remove an indication on its web site that it has that recognition.

- Require institutions to submit a report to the Secretary if they require servicemembers who had to withdraw from school because they were called to active duty to reapply for admission before returning to classes.
- Preempt certain state contract laws as they apply to Perkins educational loans. Some states allow loan repayment agreements and other contracts to be broken if the borrower was a minor when the contract was signed. If this bill is enacted, those state laws would no longer apply to contracts for Perkins loans. The provision would benefit public and private colleges and universities that are seeking repayment on loans that could otherwise be disputed under state law.

The bill also would authorize funding for student aid and higher education programs and increase requirements for public colleges and universities that participate in voluntary federal programs. Any costs to those institutions or to state, local, or tribal governments would result from complying with conditions of federal assistance.

COMPARISON TO PREVIOUS ESTIMATES

On November 14, 2007, CBO transmitted a cost estimate for S. 1642, the Higher Education Amendments of 2007, as ordered reported by the Senate Committee on Health, Education, Labor, and Pensions on July 10, 2007. Differences between that estimate and this estimate reflect differences in the legislation.

Specifically, CBO estimated that implementing S. 1642 would increase discretionary costs by \$53.2 billion over the 2008-2012 period, and that implementing H.R. 4137 would increase discretionary outlays by \$97.4 billion over the same period. Most of the difference is due to changes in the Pell Grant program and a new loan forgiveness program under title IV.

On October 4, 2007, CBO transmitted a cost estimate for the Private Student Loan Transparency and Improvement Act as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on August 1, 2007. Both versions of the legislation are similar and the estimated costs are identical.

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